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C O N F I D E N T I A L LJUBLJANA 000416

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EUR/NCE MNORDBERG, USDOC/ITA CRUSNAK

E.O. 12958: DECL: 06/14/2017

TAGS: ECON EINV ETRD SI

SUBJECT: HARRAH'S HAMMERS OUT 11TH HOUR AGREEMENT WITH SLOVENIAN NEGOTIATORS

Classified By: COM Thomas B. Robertson for reason 1.4 (b) and (d)

¶1. (SBU) Summary. On June 5, Harrah's Entertainment and the Slovenian state-owned casino company Hit signed a letter of intent to build a mega entertainment center in Nova Gorica in western Slovenia worth up to \$1 billion in U.S. foreign investment. Since talks were initiated eighteen months ago, the Slovenian Government has agreed to lower taxes and modify foreign ownership limits in the gaming industry. The Parliament will consider these proposed legislative changes in September. Local officials and residents have expressed concerns about lack of transparency in the negotiations and about potential pressures on regional infrastructure and the environment. Harrah's CFO told COM that the company plans to ramp up its public relations campaign to convince people in the region of the many benefits of the project. He also said he does not foresee any other major hurdles that Harrah's must overcome to press ahead with this enormous business deal. End Summary.

¶2. (C) Harrah's Chief Financial Officer Chuck Atwood arrived in Slovenia June 4 with four other members of Harrah's negotiating team. They met with municipal mayors in Nova Gorica, the largest city in western Slovenia to present the plan for the proposed center. During this town hall meeting, the mayors were able to ask questions and present their concerns about the intended project. After the town hall meeting, Atwood and Harrah's delegate Jan Jones, former mayor of Las Vegas had an interview with national newspaper Delo on June 5, where they enumerated the multiple benefits of the project, which would represent the largest single foreign investment in Slovenia at upwards of 1 billion USD -- increases in jobs, tourism, direct and indirect revenue from center and valuable knowledge transfer.

¶3. (C) Harrah's CFO Chuck Atwood expressed to COM during a meeting on June 5 that he thought the negotiations went very well and he did not see any other major hurdles. The GOS has stated that it will submit legislation this fall which will address two significant hurdles left unresolved from the previous letter of intent -- lowering the applicable tax rate and increasing the limit on foreign ownership in the gaming industry. By the end of 2007, with the Parliament's approval, the GOS plans to lower the effective tax rate of the gaming industry from 33% to 17.5% and increase the limit on foreign ownership from 20% to 49%. Harrah's VP of Government Relations and Development David Satz confirmed that he felt that the roles and responsibilities were "memorialized" this time around. Still, Satz was clear that Harrah's would need to woo the mayors in order to get stronger buy-in for the center and reduce public backlash against the project. COM strongly urged Harrah's to take an active role in reaching out to the Slovenian public rather than leaving it to Slovenian partner Hit since, in his

experience, Slovenians are notoriously weak in managing public relations. End Summary.

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THE GOOD...INCREASES IN REVENUE AND JOBS  
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14. (SBU) From the beginning, the GOS has seen the benefits of a major greenfield investment coming into Slovenia. Currently foreign direct investment (FDI) is on the decline and increasing FDI is a major economic goal for the GOS. According to Niko Trost, CEO of Slovenian casino Hit, and Chuck Atwood, annual tax revenues alone are expected to top 120 million euros. The center will spend at least 165 million euros a year on local goods and services and the companies constructing the center could earn somewhere between 700 million and 1 billion euros. Moreover, the center will directly create 3,200 new jobs and another 1,000 indirectly. The center would also help attract international visitors, with approximately 90 percent of the new center's guests expected to come from abroad. The exact timelines and location for the building are still unclear and the best-case scenario would see the complex open within three years, though most experts believe 4 or 5 years is a more likely target.

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THE BAD...LACK OF TRANSPARENCY AND INFORMATION  
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15. (C) One constant theme in the Slovenian press since the first letter of intent was signed in 2005 has been the "secrecy" surrounding this project. In the absence of concrete information suspicion was growing, along with doubt that a Harrah's/Hit deal would be good for Slovenia. During the roundtable meeting with municipal mayors on June 5, the emotions ran from full-fledged support to resentment to outright hostility. The mayor of Bovec and Social Democratic

Party (SDS) parliamentarian Danijel Krivec is fully supportive of the venture, seeing the potential for increased jobs and new revenue streams for his municipality. Nova Gorica mayor Mirko Brulc, representing the most dominant sentiment among the mayors, stated that the presentation was not detailed enough. He felt that saying that the center will donate money and sponsor many local activities was too vague and not a satisfactory response to the concerns raised by the mayors in the region regarding loss of revenue due to the proposed lowering of gaming taxes. The most vocal opponent is Marjan Poljsak, the mayor of Ajdovscina. He holds an anti-American view that Slovenian company Hit should develop the entertainment center alone and maintain a "European" identity. Satz explained to COM that Harrah's has been willing to be more public but that the Slovenian Finance Ministry and Hit have been insisting on secrecy.

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AND THE UGLY...ENVIRONMENTAL CONCERNs  
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16. (SBU) Slovenian officials and NGOs alike are concerned about the impact on their environment and the quality of life from all the infrastructure development that will be necessary to support the center. Some members of parliament have asked for additional studies on the effects of this project on the environment. The Social Democrat party (SD) is the most supportive of the project since it creates jobs, but they believe more information is needed on plans for regional infrastructure development. Harrah's representatives Chuck Atwood and Jan Jones emphasized Harrah's respect for environmental concerns and stated that the way forward will involve cooperation between all the stakeholders. (Note. Environmental NGOs are very strong in Slovenia and have derailed or delayed economic ventures in the past. End Note)

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COMMENT  
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17. (C) Slovenia seems to have a love/hate relationship with the outside world. It has worked furiously since its independence in 1991 to join myriad international

organizations -- EU, eurozone, NATO, World Bank, and the OECD to name a few. Although Slovenia wants to have a presence in the international arena, it is somewhat more ambivalent about an international presence in Slovenia. Whether it is growth in tourism, foreign investment, or privatization Slovenians hold staunchly to the "slow and steady" principle. Although the GOS wants the Harrah's/Hit deal to succeed, there is a public sense that this may be too much too fast. For the members of parliament and the NGOs, the call for more impact studies seems to be an effort to apply the brakes and slow down the process. The cry for more information from the mayors is more an effort to get a bigger share of the pie. In all fairness, however, Hit and the GOS had not made any serious efforts to brief the public and the mayors before the Harrah's visit this month, so the reaction is understandable.

18. (C) Harrah's will need to take a more active role in public outreach to counteract these efforts to slow development of the project. It will also need to reach out to stakeholders and opinion makers -- including members of parliament, NGOs, municipalities, press -- directly with arguments about the advantages of bringing American investment into Slovenia. The proposed entertainment center will attract international visitors and employees, helping to make Slovenia a world destination rather than a passageway, something that raises concern for many Slovenians. Although privately the GOS strongly supports the project, some politicians, such as Finance Minister Bajuk, are unlikely to make a strong public case for the importance and value of a large-scale investment like the one on the table with Harrah's, due to some moral concerns surrounding gambling among the church and population. That said, Prime Minister Janez Jansa has made it clear that he wishes this project to go through, and we expect that his leadership and that of the local mayors, when they see the clear advantages of the project for their region, will ultimately help make this investment a reality. End Comment.

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